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SOUTHERN INYO HEALTHCARE DISTRICT

**UNITED STATES BANKRUPTCY COURT**

## EASTERN DISTRICT OF CALIFORNIA

## **FRESNO DIVISION**

In re

Case No.: 2016-10015

## SOUTHERN INYO HEALTHCARE DISTRICT,

Chapter 9

FEC-001

## CHAPTER 9 STATUS REPORT

## Status Conference:

Date: February 10, 2016

Time: 1:30 p.m.

Place: Dept. A, Ctrm 11  
U.S. Bankruptcy Court  
2500 Tulare Street  
Fresno, CA 93721

SOUTHERN INYO HEALTHCARE DISTRICT (“SIHD” or the “Debtor”), the debtor in the above-captioned bankruptcy case (the “Bankruptcy Case”), respectfully submits the within *Chapter 9 Status Report*.

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## **STATUS REPORT**

## I. BANKRUPTCY CASE

#### **A. Petition and Schedules**

1. On January 4, 2016, SIHD commenced the instant Bankruptcy Case by filing a voluntary petition for relief under chapter 9 of title 11 of the United States Code (the “Bankruptcy Code”).

2. On or about January 19, 2016, the Debtor filed its schedules and statement of financial affairs. The Debtor is presently preparing amended versions of the List of 20 Largest Unsecured Creditors, Schedule F, Schedule G, and the Statement of Financial Affairs. The Debtor anticipates filing these documents prior to the status conference.

## **B. Pending Motions/Stipulations**

3. On or about January 6, 2016, the Court issued the *Order to Appear and Show Cause Why a Patient Care Ombudsman Should Not Be Appointed*. On or about January 25, 2016, SIHD filed the *Debtor's Motion to Excuse the Appointment of a Patient Care Ombudsman*. On or about February 3, 2016, the Debtor filed the *Declaration of Colleen Wilson, Chief Nursing Officer, in Support of the Motion to Excuse the Appointment of a Patient Care Ombudsman*. A hearing to consider the appointment of a patient care ombudsman is presently set for February 10, 2016, at 1:30 p.m.

4. SIHD has negotiated stipulations regarding the provision of adequate assurances pursuant to 11 U.S.C. § 366 with the following utility providers: (a) the Los Angeles Department of Water and Power; (b) Preferred Septic and Disposal; (c) Eastern Sierra Propane; (d) Thomas Petroleum; (e) California Broadband; (f) ATI Medical Waste Management; and (g) the County of Inyo Town and Water Systems. The stipulations with the Los Angeles Department of Water and Power, Preferred Septic and Disposal, and Eastern Sierra Propane are fully executed and on file with the Court. The Debtor anticipates receiving the necessary signatures and filing the stipulations with Thomas Petroleum, California Broadband, ATI Medical Waste Management, and the County of Inyo Town and Water Systems shortly.

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1           **C.     Case Administration**

2       5.      Significant progress towards rehabilitation of the Debtor's operations has been  
 3 made since the filing. SIHD's chief restructuring officer has been on site several times to conduct  
 4 operational and financial assessments. SIHD has reassembled a medical staff and continues to add  
 5 additional staff on a regular basis. SIHD has also been working diligently to ensure it has  
 6 sufficient clinical and administrative staff. Additionally, SIHD has worked on ancillary  
 7 operations, ensuring that the radiology and laboratory departments of the hospital are properly  
 8 equipped and functioning.

9       6.      During this time, SIHD has also worked closely with the California Department of  
 10 Public Health (the "CDPH") to resolve any outstanding issues in order to fully reinstate the  
 11 hospital's licensure, which was temporarily suspended while SIHD was assessing and  
 12 restructuring certain aspects of the hospital's operations. SIHD anticipates resolving any  
 13 remaining issues shortly and inviting CDPH to conduct a survey of the facility prior to February  
 14 15, 2016, which, if the CDPH finds that all issues have been adequately resolved, will result in  
 15 the full restoration of the hospital's licensure—allowing the hospital to once again offer services  
 16 to the community.

17       7.      In addition to the proceeds generate from the operation of the hospital and its  
 18 associated nursing facility and clinic, the Debtor also receives property tax revenues. The Debtor  
 19 has been working with the State of California to increase the amount of public funding via the  
 20 state Medicaid program. The Debtor is optimistic that the additional funding will be approved  
 21 and estimates that the increased funding could be as much as \$750,000 annually.

22           **D.     Pending Litigation**

23       8.      As of the commencement of the Bankruptcy Case, the Debtor was party to certain  
 24 pending lawsuits, including the following: *Perez v. Kibler, et al.*, case no. SICV CV 1457395,  
 25 pending the California Superior Court for the County of Inyo (the "Perez Litigation"); *Anderson*  
 26 *v. Southern Inyo Healthcare District*, case no. 30-2015-00817277-CL-CL-CJC, pending (the  
 27 "Anderson Litigation"); and *Craneware, Inc. v. Southern Inyo Healthcare District*, 15CV04309,  
 28 pending in the District Court of Johnson County, Kansas (the "Craneware Litigation").

1           9. On or about February 1, 2016, the Anderson Litigation was dismissed.  
 2           10. The Debtor is presently considering the available options with respect to the  
 3 prosecution of the Perez Litigation and Craneware Litigation. If deemed appropriate, the Debtor  
 4 intends to remove the litigation to this Court.

5           **II. ADVERSARY PROCEEDING**

6           11. On January 13, 2016, the Debtor filed a complaint against the CDPH and Karen  
 7 Smith—thereby commencing the adversary proceeding styled *Southern Inyo Healthcare District*  
 8 v. *California Department of Public Health, et al.*, adv. no. 2016-01008 (the “Adversary”). By  
 9 and through the Adversary, the Debtor seeks a determination that the suspension or revocation of  
 10 the Debtor’s hospital licensure violated the automatic stay and requests the issuance of an  
 11 injunction preventing the CDPH from suspending or revoking the license without relief from the  
 12 automatic stay.

13           12. On or about January 13, 2016, the Debtor filed the *Motion for Issuance of a*  
 14 *Temporary Restraining Order and Preliminary Injunction* (the “Injunction Motion”) on an  
 15 emergency basis. Shortly thereafter, the Injunction Motion came on for hearing. Following a  
 16 hearing on the merits, the Court denied the request for the issuance of a temporary restraining  
 17 order and set the question of whether to issue a preliminary injunction for hearing on March 15,  
 18 2016, at 2:00 p.m. In light of the ongoing cooperative efforts and anticipated reinstatement of the  
 19 hospital licensure, the Debtor is presently evaluating whether the interests of the estate would be  
 20 best served by withdrawing the Injunction Motion without prejudice to seeking a preliminary  
 21 injunction at a later time.

22           **III. MEDIATION**

23           13. The Debtor is working with the CDPH to resolve the remaining issues preventing  
 24 reinstatement of the hospital licensure. The Debtor has also successfully negotiated adequate  
 25 assurance agreements with each of its utilities. As such, the Debtor does not believe it is  
 26 necessary to refer any disputes to mediation or otherwise involve a mediator in these proceedings  
 27 at this time.

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#### **IV. SECTION 923 NOTICE**

14. The Debtor has obtained quotes for the publication of the notice required by section 923 of the Bankruptcy Code. The publications under consideration are THE INYO REGISTER and THE BAKERSFIELD CALIFORNIAN. Given its circulation, the Debtor intends to proceed with publishing the notice in THE BAKERSFIELD CALIFORNIAN for a period of four weeks. The first publication should occur prior to the status conference.

15. The Debtor is not publishing the notice in any financial publications as the Debtor has not issued any bonds.

## **V. FIXING DATE TO FILE PLAN OF ADJUSTMENT**

16. The successful restructuring of the Debtor's obligations pursuant to a plan of adjustment is dependent on the operation of the hospital, the infusion of capital into the hospital, and, potentially, increased state Medicaid support. The Debtor is well underway in its effort to reopen the hospital and associated nursing facility and clinic. The Debtor is also pursuing financial investments and additional state Medicaid funding. The Debtor believes that setting the deadline to file the plan of adjustment for August 31, 2016, will allow the Debtor sufficient time to reliably evaluate the operational revenues of the hospital, nursing facility and clinic under new management and obtain the necessary public and private financing to propose a viable plan of adjustment. As such, the Debtor requests that the Court set August 31, 2016, as the deadline by which the Debtor may file its plan of adjustment pursuant to section 941 of the Bankruptcy Code.

Dated: February 3, 2016

Respectfully submitted,

## **BAKER & HOSTETLER LLP**

By:

Ashley M. McDowell  
Michael T. Delaney

Attorneys for Debtor,  
SOUTHERN INYO HEALTHCARE DISTRICT